30-9-2008

THE PLANNED DECISION TO TRANSFER AN ENTREPRENEURIAL COMPANY

Hannes Leroy, Katholieke Universiteit Leuven

Miguel Meuleman, Vlerick Leuven Gent Management School and Nottingham University

Sophie Manigart, Vlerick Leuven Gent Management School and Ghent University

ABSTRACT

The Theory of Planned Behavior (TPB) is used in this paper to empirically study whether an entrepreneur successfully transfers his/her firm, conditional on exiting the firm. TPB posits that entrepreneurial intentions drive actions, being the transfer of a business. We expand the TPB framework with business characteristics (intangible assets and profitability) to further explain the gap between intentions to transfer and the transfer outcome. Based on survey responses of 198 Belgian entrepreneurs that exited their company between 2001 and 2006, we show that intentions drive transfer outcomes. Further, the personal desirability of a transfer, the perceived control over the transfer process and the level of intangible assets influence intentions. Business profitability has a direct positive effect on the probability of transferring a business, that is partially mediated through intentions.

INTRODUCTION

What determines whether an entrepreneur is able to transfer his or her business, or whether the business is simply terminated? Despite the importance of this question to academic researchers, policy makers, entrepreneurs and other stakeholders, surprisingly little is known on the exit process and outcome (DeTienne and Cardon, 2007). The exit event is important to entrepreneurs, as all entrepreneurs experience at least once an exit, either during their life or, more pessimistic, at their death. It is hard to find another type of event in the professional life of an entrepreneur that is more

significant than the exit (Cardon et al., 2005; Petty, 1997). A business transfer is defined as "a transfer of ownership of an enterprise to another person or enterprise that assures the continuous existence and commercial activity of the enterprise" (European Commission, 2003). Compared to simply closing down a business, transferring the business not only produces higher economic wealth for the entrepreneur, but it also has an important psychological impact (Petty, 1997). The transfer of the business, rather than its termination, is further important for all stakeholders, for example employees, customers, suppliers, other shareholders and financiers. Transferring a business is not trivial, however. For example, information on the business has to be produced in order to allow for due diligence by the acquiror, a potential acquiror (family member, employee or other company) has to be found, and an acceptable transfer price has to be agreed upon. Transferring a business is thus a more lengthy, time consuming and costly process than liquidating the business. It is, therefore, relevant to study the determinants of a business transfer conditional on the exit of the entrepreneur. We will use the theory of planned behavior (TPB) as central theoretical model (Ajzen and Fishbein, 1980; Ajzen and Madden, 1992) to study the transfer of a business, conditional on its exit, and augment TPB with business-related determinants.

The transfer of entrepreneurial companies is further a prime concern of governments and policy makers (Holmes & Schmitz, 1990), especially in Western Europe. The European Commission estimates that a third of all European entrepreneurs will exit their business within the next ten years due to retirement (European Commission, 2006). This proportion is higher than ever due to demographic effects such as the baby boom generation that is now due to retire and due to the overall ageing of the population. Whereas intergenerational transfer used to be considered as the most natural way of exiting a business, it is expected that sons or daughters will more seldom be the successors, as families are smaller and young professionals have now more career options than ever (European Commission, 2006). Moreover, more and more companies are started with the intention to sell them in the medium term, rather than with the intention to pass them on to the next generation. This makes the transfer of businesses even more important in the future. Given that the transfer of a business preserves economic activity and that taking over an existing business has a higher success rate than

starting a company (European Commission, 2003), policy makers are keen to ensure that no institutional hurdles are raised that might prevent business transfers.

Finally, the exit and transfer of businesses has traditionally received a lot of attention of researchers in different fields. For example, economists and organizational sociologists are interested in exits at the industry level (e.g. Hannan and Carroll, 1992; Dunne et al., 1988). Strategy scholars may study exits at the firm level, for example as a result of the emergence of new technologies (Sarkar et al., 2006). Studies on business transfers have mainly taken the firm as unit of analysis, focussing on topics as the process and impact of CEO succession (Kesner and Sebora, 1994; Shen and Cannella, 2003), management buy-outs (Howorth et al., 2004), acquisitions (Greabner and Eisenhardt, 2004) or IPOs (Bayar, 2006).

By contrast, in an entrepreneurial setting, the focus of analysis is on the entrepreneur, answering questions as why, when and how entrepreneurs leave their company (DeTienne and Cardon, 2007). As entrepreneurs are the designers and dominant forces of their organizations, it is important to understand their decision making process (Sarasvathy, 2004). The decisions made by entrepreneurs, and not the least the decision about their exit, not only impacts their personal situation but also all stakeholders involved in the business. Hence, a lot of attention has been devoted to succession in family firms from the point of view of the incumbent CEO, the successor or the organization (e.g. Bjuggren and Sund, 2002 ; Butler et al., 2001; LeBreton-Miller et al., 2004; Miller et al., 2003; Venter et al., 2005). The involuntary exit of the entrepreneur, for example due to bankruptcy (Pennings et al., 1996; McGrath, 1999) or due to pressures of external shareholders such as venture capitalists (Boeker and Wiltbank, 2005), is another stream of research.

This study draws upon the theory of planned behavior (TPB - Ajzen and Fishbein, 1980; Ajzen and Madden, 1992) to better understand why some entrepreneurs are able to transfer their business to a third party rather than merely liquidating it, conditional on entrepreneurs exiting the business. The theory of planned behavior considers the intention of the individual as the main determining factor of

human behavior – here the transfer of a business. As an entrepreneurial exit is under the volitional control of the entrepreneur, the TPB is especially useful in our context (Sheppard et al., 1988). As individual intentions cannot fully explain behavior, however, researchers have proposed additional potential influences (see Conner and Armitage, 1998, for a review). We, therefore, augment the TPB-model with business-related variables (LeBreton-Miller et al., 2004).

We empirically tested our model on a sample of 198 former small business owners in Belgium who have exited their business between 2000 and 2006. Slightly more than one third of the respondents were able to transfer their business, either to a family member or to a third party; the other businesses were voluntarily or involuntarily liquidated. Our findings suggest that TPB is a powerful model to predict business transfers. Specifically, we found that the intention of an entrepreneur to transfer the business explains to a large extent the act of transferring the business. The entrepreneur's intention is driven by his/her personal attitude and the attitude of significant others towards a transfer and by his/her perception of the feasibility of a transfer. We found an additional impact of business related variables: the higher the profitability of the business and the lower its stock of intangibles assets, the higher the probability of being able to transfer the business.

Our findings extend previous work on entrepreneurial exits. Focusing on the individual decision of the exiting entrepreneur adds to the literature as "this perspective of the seller is both crucial and poorly understood" (Graebner and Eisenhardt, 2004:367). Compared to DeTienne and Cardon (2007), we add an important step by studying actual exit behavior rather than entrepreneurial exit intentions. We further show that next to the person-related characteristics, business characteristics further explain which companies have a higher probability of transfer. Compared to the family succession literature, we include not only family succcession as a transfer strategy, but also transfer to a third party. Given that the latter is equally important as the former and will probably gain in importance in the future (European Commission, 2003), and given that the processes underlying a family verses a non-family succession may be fundamentally different, extending exit outcomes beyond family succession is relevant.

Given that all entrepreneurs will at least once go through an exit, our research is important to entrepreneurs, business transfer advisers and educators. This research indicates the importance of the entrepreneur, more specifically in having positive attitudes and being self confident in the act of transferring the business. These are personal traits that can be enhanced through training and education. But even with the best intentions, not all companies will be transferred: business viability and low information asymmetries impact the transfer probability.

THEORETICAL DEVELOPMENT

The theory of planned behavior and entrepreneurial exit. TPB explains and predicts a wide variety of human behaviors across a variety of settings (Ajzen, 1991; Ajzen and Fishbein, 1980; Ajzen and Madden, 1992). Grounded in the social cognitive psychology literature, this theory was developed to model conscious and deliberative decision making based on careful consideration of available information. The model's central assumption is that a significant amount of behavior is under control of the actor; thus, behavior can be predicted by understanding an individual's intention to perform a behavior (Ajzen and Fishbein, 1980). Intentions are a person's motivation, willingness to exert effort, and willingness to try hard to enact the behavior (Ajzen, 1991). Intentions hence serve as a behavioral plan that mediate between the attitudes of the person and the enactment of the behavior (Ajzen and Fishbein, 1980). In other words, whenever individuals form intentions based on their personal attitudes and subsequently translates these intentions into action, they are engaging into planned behavior. TPB is particularly applicable when the behavior under scrutiny is rare, hard to observe, or involves unpredictable time lags (MacMillan and Katz, 1992). In these situations, current behavior will be less influenced by past "habits" (Conner and Armitage, 1998), making the role of intentions even more important in explaining behavior. It is hence not surprising that TPB has already been successfully used by entrepreneurship scholars to explain entry decisions (Kolvereid and Isaksen, 2006; Krueger et al., 2000), exit intentions (DeTienne and Cardon, 2007) or succession decisions

(Sharma et al., 2003b), which are rare and often involve unpredictable time lags. Given the suitability of TPB to study entrepreneurial exits, we chose it as our central theoretical model (see Figure 1).

According to TPB, the probability that a behavior – the transfer of a business – will occur depends on the intention of an individual – the entrepreneur – to engage in that behavior, while attitudes of the individuals strongly develop their intentions (Ajzen, 1991; Ajzen and Fishbein, 1980). Important conceptually independent attitudes affecting intentions in TPB are the perceived desirability of the outcome to the individual (*personal desirability*), the acceptability of the outcomes to the social norms of a reference group (*social norms*) and the perception that the behavior is feasible (*perceived behavioral control*) (Ajzen, 1991; Ajzen and Fishbein, 1980; Sharma et al., 2003b).

Ajzen (2007) defines personal desirability or personal attitude towards a behavior as "the degree to which performance of the behavior is positively or negatively valued". In the context of business exits and transfers, personal desirability relates to the extent that a transfer is more valuable to the entrepreneur compared to a liquidation of the business. Social norms are "the perceived social pressure to engage or not to engage in a behavior", and is related to the expectations of important referents (Ajzen, 2007). In the context of business transfers, social norms refer to the entrepreneur's perception of the importance of a transfer toward significant others such as the partner of the entrepreneur, family members or close friends (Krueger et al., 2000). Finally, perceived behavioral control or self-efficacy (Gist and Mitchell, 1992) refers to "people's perception of their ability to perform a given behavior. It is determined by the beliefs about factors that may facilitate or impede performance of the behavior" (Ajzen, 2007). In the context of business transfers, it refers to the degree to which the entrepreneur is confident that (s)he will be able to transfer the business. For example, DeTienne and Cardon (2007) showed that past experience of entrepreneurs is strongly correlated with their perceived behavioral control over different exit alternatives. In TPB, perceived behavioral control is especially important, as it not only impacts intentions but also directly impacts the probability that the behavior will occur (Conner and Armitage, 1998). Indeed, people who think they can perform well on a task, generally do better than those who think they will fail. Thus, people who

have the same skills may perform differently based on their perception of the suitability of their skills for the task at hand (Gist and Mitchell, 1992). Entrepreneurs who have a higher confidence that they will master the process of the business transfer, will hence be more successful and have a higher probability of transferring the business.

Applying TPB to the context of business transfers leads to following hypotheses:

H1: The entrepreneur's intentions to transfer the business positively impacts the probability of transferring the business, rather than liquidating it.

H2a: The entrepreneur's perceived behavioral control over the transfer of the business positively impacts the probability of transferring the business, rather than liquidating it.

H2b: The effect of preceived behavioral control on the transfer outcome is partially mediated through intentions.

H3: The entrepreneur's personal attitude towards a business transfer positively impacts his/her intention to transfer the business, rather than liquidating it.

H4: The subjective norms of important referents towards a business transfer positively impact the entrepreneur's intention to transfer the business, rather than liquidating it.

Business related variables. While TPB has been successfully applied to model various decisions, it is clear that intentions cannot fully explain behavior (Conner and Armitage, 1998). Therefore, social cognitive researchers have proposed various additional potential influences on behavior, which are independent of intentions (Conner and Armitage, 1998; Gollwitzer, 1999). Extending TPB is especially important in the context of business transfers, as transferring a business is a behavior that is not fully under the control of the entrepreneur, in contrast to the other situations in which TPB has

been used successfully to predict behavior[1]. While an entrepreneur may have the best intentions to transfer the business, a third party still has to be willing to take it over. We propose therefore that business characteristics will impact the probability of transferring the business (LeBreton-Miller et al., 2004), next to the entrepreneur's intentions and perceived behavioral control. More specifically, a transfer will be easier when tacit knowledge (proxied by intangible assets) is less important and when the business is viable (proxied by the profitability of the business). We elaborate on both characteristics hereafter.

First, we propose that intangible assets negatively affect the probability of a business transfer. Intangible assets such as know-how, expertise and product knowledge often involve a substantial element of tacit knowledge. In going-concern, tacit knowledge is valuable and leads to superior performance thanks to its specific characteristics, including non-codifiability, non-teachability and complexity (Kogut and Zander, 1993; Zander and Kogut, 1995). The upside of tacit knowledge is that its non-codifiability serves as a shield against unintended imitation by rivals. Further, tacit knowledge is better protected because its properties in use are harder to assess from the outside (Nelson and Winter, 1982). Thus, all else equal, knowledge that is more tacit possesses stronger potential to generate distinctive competitive positions. In the context of business transfers, however, tacit knowledge will hamper the probability of a positive transfer outcome. First, it is more difficult for outsiders to assess the value and properties of the tacit knowledge (Nelson and Winter, 1982). Further, the non-teachability and complexity of tacit knowledge (Zander and Kogut, 1995) make it more difficult to transfer tacit knowledge to a third party. For example, in the context of family businesses, Bjuggren and Sund (2002) note that family idiosyncratic knowledge is a major factor that prevents selling a firm outside the family. From an acquirors point of view, taking over a firm with higher levels of tacit knowledge is thus more risky. Intangible assets as an

[1] Behavior that has succesfully been modelled by TPB includes doing physical exercise, quiting drinking, engaging in binge drinking, but also starting a business and taking over a family business.

indicator of tacit knowledge might therefore negatively impact business transfer outcomes. Hence:

H5: The higher the level of intangible assets, the lower the probability of a business transfer will be.

Second, we expect that the viability of the firm plays an important role in the exit outcome. Butler et al. (2001) identified historical performance as having an important impact on different transfer outcomes. More specifically, firms with a good track record of performance will be more attractive as takeover targets as they have a proven business concept that is valuable to others. As a new owner, it is easier to operate an already profitable business than to turn around an unprofitable business. The risk of taking over a profitable business is therefore lower. It is therefore more likely that a business transfer will be realized for firms with higher performance levels. Hence:

H6: The higher the profitability of the firm, the higher the probability of a business transfer will be.

METHOD

Sample frame and data collection. We test the hypotheses by studing the exit behavior of Belgian small business owners that have exited between 2001 and 2006. The Belgian Value Added Tax (VAT)-administration provided contact data on the full population of 166,493 organisations that terminated their VAT[2]-number and hence their economic activity between 2001 and 2006. We

[2] The Value Added Tax-number is a unique number that unambiguously identifies a business. The VAT number is terminated when a firm ceases economic activity, but also when a firm is transferred to either another business or another individual. The termination of a VAT number is hence a valid indicator of firm exit.

identified micro-businesses with maximum ten employees through database matching in BELFIRST[3]. Furthermore, we limited our sample to individuals or companies in Flanders (for language reasons) and to those industries that showed a reasonable percentage of exits in recent years[4]. This results in a population of 89,528 exited micro-entrepreneurs. 3706 respondents were randomly drawn from the target population, eliminating 3056 respondents due to incorrect addresses, duplicates and disconnected phone numbers. This high percentage of outfall is due to the fact that contact data is related to the exited business rather than the current activities of the entrepreneur (see also DeTienne & Cardon, 2005). We contacted the remaining 650 business owners by telephone in order to explain the purpose and importance of the study and hence increase participation. The personal contacts further ensure that the intended person – the former business owner – would personally fill in the questionnaire. A number of individuals were unable to participate due to sickness, old age or language barriers, reducing the initial sample to 447 potential respondents. In order to increase the response rate, respondents were given the choice to fill in the questionaire via internet (N=75) or hard copy (N=123). We tested for differences between internet-respondents and hard copy-respondents, but no differences were significant.

112 entrepreneurs completed the survey within the first 2 weeks after administration. After a follow-up telephone call, an additional 86 respondents raised the response rate to a total of 198 or 30,5%. This response rate is higher than previous studies using entrepreneurs and owners. For example, DeTienne and Cardon (2007) reported a response rate of 18% in their study utilizing founding entrepreneurs.

We tested whether the actual sample represents the population. The sample has slightly more firms in the agricultural industry and slightly less in real estate and rental/services to companies than

[3] BELFIRST is a database containing financial data and other company demographics on the full population of Belgian enterprises subjected to VAT-taxes.

[4] We eliminated activities with less that one percent of the total amount of exits and retained following industries: agriculture, construction, retail; car repair and domestic articles, hotels and restaurants, real estate and rental/services to companies and manufacturing, transport storage and communication. We retained control for their effects on the main variables.

the population, but there is no significant difference in the legal form of the sample companies compared to the population. Further comparison of early and late respondents shows no significant differences between the two groups of respondents, suggesting that the sample is representative for the population.

Survey design and measures. We started with widely-validated scales for the variables, but pre-tests of out survey instrument with ten micro-entrepreneurs (not included in the final sample) and with five business transfer experts indicated that some items needed to be rephrased to our target group or to the specific situation of business exits. Further, for reasons of simplicity, items should be scaled consistently on a five-point attitudinal Likert-scale (1 = completely disagree, 5 = completely agree). In the following paragraphs, we discuss the variables and report Cronbach alpha's and factor loadings where appropriate. Table 1 gives an overview of all variables and their non-parametric correlations.

Dependent variable. The dependent variable is the exit outcome. We differentiate between four exit alternatives (Petty, 1997): transfer to a family member (15.9%), transfer to a third party including employees or another company (18.5%), voluntary exit or liquidation (62.6%) and involuntary exit or bankruptcy (3.1%). Given our target population of small businesses, an IPO is not relevant and hence is not included as an exit alternative. The low proportion of involuntary exits hints that there is a likely sample selection bias: owners of bankrupt companies were less likely to respond. Based on the four exit alternatives, we code the dependent variable "business transfer" as 1 when the business has been transferred to a family member or to a third party (34.4% of the sample), and code it as 0 when the business has been voluntarily or involuntarily liquidated. To enhance the reliability of the dependent variable, we further asked whether the business activity continued under new ownership (Sharma et al., 2003a). This measure correlates perfectly with the business transfer measure. We therefore do not use it in further analyses.

Theory of Planned Behavior (TPB) variables. TPB has already been adapted to an entrepreneurial setting to explain entrepreneurial start-ups or family succession (e.g. Krueger et al., 2000, Sharma et

al., 2003b, Kolvereid & Isaksen, 2006). Therefore, we replicated the survey instrument of Krueger et al. (2000) as much as possible. The TPB variables were assessed using two to four item measures distributed in a random order in the questionnaire. Exploratory factor analysis on all items identified the four TPB variables (eigenvalue > 1) and explained 80 % of the variance. After oblique rotation, all items loaded on their expected factor.

The central variable in TPB, adapted to our setting, is the *intention to transfer* the business. We included three items measuring the self-perception of the entrepreneur on the 'consideration, preparation and likelihood' (Krueger et al., 2000) of a transfer occurring. The high Cronbach alpha of 0.910 allows to aggregate the items in one variable, labeled as "intention".

Personal attitude towards the transfer was measured with three items measuring the attraction, tension and enthusiasm toward the thought of transferring ("personal desirability", $\alpha = 0.587$) (Krueger et al., 2000). We deleted the second item of the personal desirability-scale, increasing the α-value to 0.824. The negative wording of the item as well as the different context in which the item was originally used (entrepreneurial career choice) might justify its deletion. Given the difficulties with the *social norm-scales* in previous research (Armitage & Conner, 1998), we opted to use the three items of Kolvereid and Isaksen (2006) measuring the attractiveness of transfer from the perspective of close family, friends and other people significant to the entrepreneur (social norms, $\alpha = 0.902$). Finally, *perceived behavioral control* was measured with three items. It measures the confidence of the entrepreneur in the possibility to transfer the business (three items, $\alpha = 0.867$).

Business variables. The importance of intangible assets is measured by seven items that capture the importance of know-how, expertise, product knowledge, customer relationships and brand familiarity in the success of the firm. Two items (patents and exclusive contracts) are less relevant in the context of small businesses and are excluded from further analysis. Alpha for the 5-items scale is 0.877. Profitability measures the evolution and actualization of

most recent (to three years before actual exit) revenues of the firm and has a satisfactory alpha of 0.758.

Control variables. Various variables were included in the logistic regressions to control for non-specific effects. They were identified in the entrepreneurial exit literature (DeTienne & Cardon, 2007; Butler et al., 2001): age of the entrepreneur (mean = 53.7 and SD = 13.4)[5], sex (female=34.7 %), number of employees as a proxy for the size of the firm (mean=1.2 and SD = 1.62) family generation of the firm (mean=0.9 and SD=0.4) and industry. The family generation variable shows that the vast majority of the companies in the sample is founded by the entrepreneur.

A methodological control variable is added in the multivariate analyses. A common flaw in TPB and planning research is that it is retrospective in nature. To control for this effect in the completion of the survey, we designed two versions of the survey instrument. In the first version, TPB items preceded action items (N=79), while the order was reversed in the second version (N=117). This allows to control for the influence of a recall of exit outcomes on prior intentions.

Insert Table 1 about here

Description of the variables. Table 1 shows the description of the variables with their means, standard deviation and non-parametric Kendall's tau correlations. We further report the means of the variables for the two groups of transferred versus liquidated businesses and significance levels of the differences between the two groups. Consistent with the TPB model, the entrepreneur's intention to transfer, the social norms and the perceived behavioral control are significantly higher in the group of entrepreneurs who transferred their business, compared to the group of entrepreneurs who liquidated their business. As expected, the intangible assets of the liquidated firms are higher than those of the transferred firms. The other variables are not significantly different between the two groups. All

[5] We did not use age of the firm (mean=21.7 years) in the analyses, given its high correlation with age of the entrepreneur.

correlations are below 0.50, except for the positive correlation of 0.75 between firm generation and number of employees.

Data analysis. We use two multivariate methods of analysis to explain the actual transfer of a business. First, structural equation models, including a series of hierarchical regression analyses, are conducted to test the theory of planned behavior for business transfers. The outcome of the structural equation models is summarized in a path model (Pavlou & Fygenson, 2006). We test two models. The first one includes only the TPB variables, while the second model augments the TPB variables with the business variables. Because most of the variables are not normally distributed and the error terms are likely to be correlated (especially between personal desirability, social norms and perceived behavioral control), we use three-stage least squares to estimate the parameters based on the polychoric correlation table.

Second, as a robustness check for the structural equation models, hierarchical logistic regression analyses with the relevant TPB, the business and the control variables explaining the exit outcome are estimated. The first model includes the control variables only, the relevant TPB variables are added in the second model and the business variables are added to the control and TPB variables in the third model.

RESULTS

Structural equation models. The solid lines in figure 1 show the first path model with parameter estimates of the basic structural equation model, testing the applicability of TPB on business transfers (H1 and H2). The second path model extends TPB with the business variables, shown with dotted lines in figure 1. In order to assess the overall fit of model 1 to the data, multiple fit indices are used in order to provide convergent evidence of model fit: the Goodness of Fit (GFI) statistic and Bentler's Comparative Fit Index (CFI). The CFI is a measure of incremental fit to a null model with all variables mutually independent. The values of GFI and CFI range from 0 to 1, with values of 0.9 and

higher commonly indicating acceptable model fit (Bentler and Bonnett, 1980). The fit is more than acceptable: Bentler's CFI is 0.97 and the GFI statistic is 0.90; when adjusted for degrees of freedom, the adjusted GFI statistic is 0.86. Further, the root mean square residual (RMSR) is 0.07.

Insert Figure 1 about here

Both intention and transfer outcome are explained with a significant amount of variance in the expected order. Estimates of most paths in the model are statistically significant. The direct path from *intentions* to *transfer* is significant ($p<0.01$), indicating that the entrepreneur's intention is positively related to the transfer of a business, supporting H1. H2a is not supported, however: while the coefficient of the direct relationship between perceived behavioral control and transfer is positive, it is not significant. H2b is supported: the effect of perceived behavioral control on transfer outcomes is mediated through transfer intentions ($p<0.01$). The effect of perceived control on transfer outcome is hence fully mediated through intentions, rather than partially. H3 is supported: personal desirability has a significant ($p<0.01$) positive effect on intentions. While the effect of social norms on intentions is positive, the effect is not significant, lending no support to H4. Overall, our results show that some parts of TPB are well suited to explain the transfer of business, conditional on the exit of the entrepreneur. Two TPB-relations (from social norms to intentions and from perceived behavioral control to transfer outcome) are not significant, although the coefficients have the expected signs.

Model 2 includes TPB and business variables. Adding the business variables does not substantially alter the previously described TPB relations and their significance levels. H5 is supported: the indirect effect of intangible assets on transfer outcome through intentions is significant and negative. The relationship is more complex than expected, as our data indicate that intentions mediate the relationship between intangible assets and transfer outcome. This implies that entrepreneurs understand the negative impact of intangible assets on business transfers and fully incorporate this knowledge in their transfer intentions. H6 is also supported: the relationship between the profitability of a business and the transfer outcome is positive, but it is partially mediated by

intentions. Both the direct and indirect effects are significant ($p<0.01$). This implies that entrepreneurs only partially incorporate the effect of business viability in their transfer intentions. Overall, our data suggest that TPB and business characteristics together explain transfer outcomes directly and indirectly through transfer intentions.

Insert Table 2 about here

Hierarchical logistic regressions. Table 2 shows the outcome of the hierarchical logistic regression models with the transfer of the business as dependent variable. Model (1) includes only control variables. The fit of the model is modest (Nagelkerke $R^2=0.15$) and none of the coefficients is significant. Model (2) adds the TPB variables that directly influence the transfer outcome, being intention and perceived behavioral control. The Nagelkerke R^2 is significantly higher for model 2 (0.58) than for model 1, supporting again TPB as a suitable model to predict business transfers. The coefficients of both TPB variables are highly significant and positive: a higher intention to transfer the business ($p<0.001$) and a higher perceived behavioral control over the business transfer ($p<0.05$) have a significant positive effect on the probability of transferring the business.

Model (3) expands Model (2) with the business variables. The Nagelkerke R^2 significantly improves to 0.65, showing that the business variables further add to the TPB model in explaining business transfers. The coefficients of the business variables are highly significant ($p<0.001$) and have the expected signs: higher intangible assets lead to a lower probability of transferring the business, while higher profitability leads to a higher probability of transferring the business.

The results of the structural equation models are consistent with the results of the logistic regresion models. As the structural equation models show deeper insight in the causal relationships, however, we will restrict our further interpretation to the outcome of the structural equation models.

30-9-2008

CONCLUSION AND DISCUSSION

Ultimately all entrepreneurs are confronted with the exit of their business. When considering the personal and economic wealth to be gained from a transfer compared to merely liquidating the business at exit, comparing transfers with liquidations is of importance to entrepreneurs, policy makers and academics alike. Contemporary business exit literature has mainly (1) focused on larger companies, (2) used the firm or industry as unit of analysis, and (3) looked at exits from a single theoretical perspective. In an attempt to address gaps in the current literature, we study the exit process of small business owners from the viewpoint of the entrepreneur using an interdisciplinary perspective. More specifically, we study how TPB can be used to understand the transfer of small businesses. We extend TPB with business related variables to explain why some firms are liquidated, while others are successfully transferred upon the exit of the entrepreneur.

Using a survey-based research design, we collected data from 196 randomly drawn Belgian entrepreneurs who exited their firm between 2001 and 2006 to test our hypotheses. In general, our analyses indicate that the main TPB variable – intention to transfer - has a strong positive impact on the probability to transfer, supporting our hypothesis. The intention to transfer a business is mainly shaped by the personal desirability of a transfer for the entrepreneur and the perceived control over the transfer, in line with TPB and with our hypotheses. In contrast with TPB but in line with previous studies that applied TPB in an entrepreneurial setting (Krueger et al., 2000), significant others have no impact on transfer intentions. It might hence be a fruitful avenue for further research to further study the role of significant others and the broader social context of the entrepreneur on entrepreneurial decisions.

Our data further suggest that firm profitability partially explains the gap between intentions and transfer outcome: more profitable firms have a higher probability of being transferred. This effect is partially mediated through intentions. The intentions of the entrepreneur are negatively influenced by another business characteristic, being the level of intangible assets and tacit knowledge. This suggests that entrepreneurs are fully aware of the negative impact of intangible assets on the probability of successfully transferring their business: they fully incorporate this effect in their transfer intentions. They are not fully aware of the impact of business viability, however, as this effect is only partially mediated through intentions.

Our results extend previous entrepreneurial exit literature in several ways. First, previous literature studied the decision to exit (Butler et al., 2001) or exit and transfer intentions (DeTienne and Cardon, 2007) separately. In this study, we show the importance of distinguishing between transfer intentions and transfer outcomes. Our results indicate that combining TPB, that focuses on the entrepreneur as an individual, with business characteristics provides a more comprehensive framework to understand transfer intentions and transfer outcome. Transferring a business is hence a complex process in which both individual and business characteristics are important (LeBreton-Miller et al., 2004). Extending transfer models with other business variables (not included in our model due to data restrictions) and industry variables might yield further insights in complex nature of the business exit process and transfer outcome.

This study has several practical implications. First, the results indicate what variables influence the intention to transfer a business and in what way. As such, these results have direct implications for policy makers as well as for an entrepreneur exiting his or her firm.

The results indicate that transferring a firm is an intentional process of thought preceding action. More in particular, it indicates that personal attitudes, perceived control over the transfer process, level of intangible assets and firm profitability account to a large degree in the intention to transfer and subsequently the transfer outcome. The idea that transfers are intentional offers an opportunity to influence these intentions. For example, increasing perceptions of control is perhaps one of the most important levers for policy makers (Gist and Mitchell, 1992). For example, setting up specific programmes that demystify the transfer process, giving entrepreneur easy access to experienced entrepreneurs or transfer consultants or setting up efficient markets where demand and supply of companies meet, might facilitate the transfer process and hence increase an entrepreneur's level of perceived behavioral control. Second, the results indicate that characteristics such as company profitability and intangible assets have an important impact on transfer outcomes and intentions. Given that the impact of firm profitability on transfer outcome is only partially mediated through intentions, sensitizing an entrepreneur to the impact of profitability on successfully transferring a firm might increase intentions translating into more successful (trans)actions.

The major drawback of this study is its retrospective research design. Kim and Hunter (1993) state that it is better to sample before the action in using the TPB and use longitudinal data to test the results. This shortcoming might have impacted the results, as we measured transfer intentions after exit. Reported intentions, however, could have been influenced by the actual outcome. Retrospective reasoning may hence have enhanced our results. We have three reasons to believe that this bias does not undermine the value of our results. First, all TPB-relationships in this study are in line with previous literature. Second, we controlled for the impact of retrospective reasoning in the administration of the survey. We did not find a significant effect of order of presentation on the intention-related variables. Third, a

retrospective research design is a practical limitation to the objective of our research. Identifying business owners who intend to exit is difficult, as an exit usually takes several years to complete. Therefore, it is a rare event: only 7% of all Belgian businesses are exited in any given year (Leroy and Manigart, 2007). In order to increase the probability of finding entrepreneurs with exit intentions, we might have focused on older entrepreneurs or underperforming firms. This would have introduced a severe bias and hence seriously limited the generalization of our results. In contrast, with our research design we were able to randomly draw a sample from the target population providing an adequate representation of the population of business exits.

Our study suggests some avenues for future research. First, the most obvious direction for future research is reconfirming these results in a different context and using longitudinal data. It would be especially relevant to understand whether entrepreneurial intentions are equally important in larger companies, as the entrepreneur may lose his or her central role as the organization grows. It is hence not obvious that a model like TPB, that focuses on the intentions of the individual as major driver of action, would still be valid in a large firm context. Managers or external shareholders may become driving forces of entrepreneurial exit, that may not necessarily coincide with business transfers. Further, transfers of large companies may be gradual, as for example in an IPO. Understanding the transfer and exit process in this context is important, but beyond the scope of this study.

Second, we were not able to explain all variation in the outcome. More variables could be identified that might impact the probability of transferring a business. More specifically, we did not consider industry-level variables, which might inhibit business transfers (LeBreton-Miller et al., 2004). Expanding our model with industry level variables might further enhance

our understanding of the factors that impact the probability of transferring a business. Another relevant variable to expand our transfer model is explicit planning. Planning the transfer process might have a positive effect on the perceived behavioral control over the transfer (Gist and Mitchell, 1992; Gollwitzer, 1999), one of the central variables of TPB. It might further have a direct impact on the transfer outcome, as the act of explicitely planning a behavior increases the probability of actually performing the behavior (Gollwitzer, 1999). Third, much of previous transfer literature has researched the satisfaction with the transfer (e.g. Morris et al., 1997). The dual stage model described in this study could be expanded to a three-stage model including satisfaction. Research questions for such a model could, for example, be whether the intention-action path increases feelings of volition and subsequently satisfaction.

CONTACT: Hannes Leroy, Naamsestraat 69, box 3545, B-3000 Leuven, Belgium; (T) +3216326911; (F) +3216326732; E-mail: Hannes.Leroy@econ.kuleuven.be

REFERENCES

Ajzen, I. (1991). The theory of planned behavior. *Organizational Behavior and Human Decision Processes*, 50:179-211.

Ajzen, I. (2007). *TpB Diagram*. <http://www.people.umass.edu/aizen/tpb.diag.htm#null-link> accessed 28/12/2007.

Ajzen, I. and M. Fishbein (1980). *Understanding Attitudes and Predicting Social behavior*, Prentice-Hall, Englewood Cliffs, NJ.

Ajzen, I. and T. Madden (1992). Application of the theory of planned behavior. *Organizational Behavior and Human Decision Processes*, 50:179-211.

Bayar, O. (2006). IPOs versus Acquisitions and the IPO Valuation Premium Puzzle: An empirical analysis. *Working Paper,* Boston College.

Bentler, P.M. and D.G. Bonnett (1980). "Significance tests and goodness-of-fit in structural equation models." *Sociological Methods and Research*, 17:303-316.

Bjuggren, P.-O. and L.-G. Sund, 2002. A transaction cost rationale for transition of the firm within the family. *Small Business Economics* 19(2):123-133.

Boeker, W. and R. Wiltbank (2005). "New venture evolution and managerial capabilities." *Organization Science* 16(2):123-133.

Butler, J., P. Phan, B. Saxberg, B. and S. Lee (2001). "Entrepreneurial succession, firm growth and performance." *Journal of Enterprising Culture*, 9:407-436.

Cardon, M., C. Zietsma, P. Saparito, B. Matherne and C. Davis (2005). "A tale of passion: New insights into entrepreneurship from a parenthood metaphor." *Journal of Business Venturing*, 20:23-45.

Conner, M. and C.J. Armitage (1998). "Extending the theory of planned behavior: A review and avenues for further research." *Journal of Applied Social Psychology*, 18:1429-1464.

DeTienne, D.R. and M. Cardon (2007). "Entrepreneurial exit strategies: The case for intention." *Working Paper*, Colorado State University.

Dunne, T., M. Roberts and L. Samuelson (1988). "Patterns of firm entry and exit in U.S. manufacturing industries." *Rand Journal of Economics*, 19:495-515.

European Commission (2003). *Transfer of businesses – continuity through a new beginning: Final report of the MAP 2002 project,* August 2003.

European Commission (2006). *Markets for Business Transfers: Fostering Transparant Marketplaces for the transfer of Businesses in Europe*. <http://ec.europa.eu/enterprise/entrepreneurship/support_measures/transfer_business/index.htm> (accessed 18/10/2006)

Gist, M.E. and T.R. Mitchell (1992). "Self-efficacy: A theoretical analysis of its determinants and malleability." *Academy of Management Review*, 17(2):183-211.

Gollwitzer, P.M. (1999). "Implementation intentions: Strong effects of simple plans." *American Psychologist*, 54:493-503.

Greabner, M. & and K. Eisenhardt (2004). "The seller's side of the story: Acquisition as courtship and governance as syndicate in entrepreneurial firms." *Administrative Science Quarterly*, 49:366-403.

Hannan, M.T. and G.R. Carroll (1992). *Dynamics of organizational populations: Density, legitimation and competition*, Oxford University Press, Oxford, UK.

Howorth, C., P. Westhead and M. Wright (2004). "Buyouts, information asymmetry and the family and management dyad." *Journal of Business Venturing*, 19:509-534.

Holmes, T. and J. Schmitz (1990). "A theory of entrepreneurship and its application to the study of business transfers." *Journal of Political Economy*, 2, 265-295.

Kesner, I. and T. Sebora (1994). "Executive Succession: Past, Present & Future." *Journal of Management*, 20:327-372.

Kim, M. and J. Hunter, J. (1993). "Relationships among attitudes, intentions and behaviour." *Communication Research*, 20:331-364.

Kogut, B. and U. Zander, 1993. "Knowledge of the firm and the evolutionary theory of the multinational enterprise." *Journal of International Business Studies*, 24:625-646.

Kolvereid, L. and E. Isaksen (2006). New business start-up and subsequent entry into self-employment, *Journal of Business Venturing*, 21, 866-885.

Krueger, N. F., M.D. Reilly and A.L. Carsud (2000). "Competing models of entrepreneurial intentions."*Journal of Business Venturing*, 15:411-432.

LeBreton-Miller, I., D. Miller and L. Steier (2004). "Towards an integrative model of effective family-owned business succession." *Entrepreneurship Theory & Practice*, 28:305-328

Leroy, H. and S. Manigart (2007). "Het stopzetten van ondernemingen: Een frequent voorkomend verschijnsel." In S. Manigart and H. Leroy (eds.), *Bedrijf te koop: Overlaten en stopzetten in Vlaanderen*. Trends Business Books: Brussels.

MacMillan, I., and J. Katz (1992). "Idiosyncratic milieus of entrepreneurship research: The need for comprehensive theories." *Journal of Business Venturing*, 7:1-8.

McGrath, R.G. (1999). "Falling forward: Read options reasoning and entrepreneurial failure." *Academy of Management Journal* 24(1):13-30.

Miller, D., L. Steier and I. LeBreton-Miller (2003). "Lost in time : intergenerational succession, change, and failure in family business." *Journal of Business Venturing*, 18:513-531.

Morris, M.H., R.O. Williams, J.A. Allen and R.A. Avila (1997). "Correlates of success in family business transitions." *Journal of Business Venturing,* 12:385-401.

Nelson, R.R. and S.G. Winter, 1982. *An evolutionary theory of economic change*, Harvard University Press, Cambridge, MA.

Pavlou, P. and M. Fygenson (2006). "Understanding and Predicting Electronic Commerce Adaption: An Extension of the Theory of Planned Behavior." *MIS Quarterly*, 30:115-143.

Pennings, J., K. Lee and A. Witteloostuijn (1996) "Human capital, social capital, and firm dissolution." *Academy of Management Journal*, 41:425-440.

Petty, J.W. (1997). "Harvesting firm value: Process and results." In D.L. Sexton and R.W. Smilor (Eds.), *Entrepreneurship 2000*. Upstart Publishing Company, Chicago, Ill.

Sarasvathy, S.D. (2004). "The questions we ask and the questions we care about: Reformulating some probems in entrepreneurship research." *Journal of Business Venturing* 19(5):707-717.

Sarkar, M., R. Echambadi, R. Agarwal, and B. Sen (2006). "The effect of the innovative environment on exit of entrepreneurial firms." *Strategic Management Journal*, 27:519-539.

Sharma, P., J. Chrisman, and J. Chua (2003a). "Predictors of satisfaction with the succession process in family firms." *Journal of Business Venturing*, 18:667-687.

Sharma, P., J. Chrisman and J. Chua (2003b). "Succession planning as planned behavior: Some empirical results." *Family Business Review* 26(1):1-14.

Shen, W. and A. Cannella (2003). "Will succession planning increase shareholder wealth? Evidence from investor reactions to relay CEO successions." *Strategic Management Journal*, 24:191-198.

Sheppard, B.H., J. Hartwick and P.R. Warshaw (1988). "The theory of reasoned action: A meta-analysis of past research with recommendations for modifications and future research." *Journal of Consumer Research*, 15:325-343.

Venter, E., C. Boshoff and G. Maas (2005). "The influence of Successor-Related Factors on the Succession Process in Small and Medium-Sized Family Businesses." *Family Business Review*, 18:283-303.

Zander, U. and B. Kogut (1995). "Knowledge and the speed of the transfer and imitation of organizational capabilities: An empirical test." *Organization Science,* 6(1):76-92.

Table 1 : Descriptive statistics

	N	Mean Sample	SD	Mean Transfer	Mean Liquid.	A	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
1. Transfer (Dummy)	197	0.34	0.48													
2. Intention	190	2.69	1.45	3.96	1.99	**										
3. Personal desirability	190	3.22	0.88	3.57	3.02		0.34 **									
4. Social norms	189	2.61	1.27	3.41	2.16	**	0.42 **	0.25 **								
5. Perceived beh. control	185	2.91	1.18	3.66	2.47	*	0.47 **	0.19 **	0.4 **							
6. Intangible assets	187	3.61	1.03	3.44	3.71	*	0.04	0.03	0.02	-0.03						
7. Profitability	186	3.03	1.18	3.46	2.89		0.05	0,00	-0.04	0.03	0.1 *					
8. Age entrepreneur	191	53.79	13.39	56.16	52.48		0.18 **	0.09	0.09	0.11 *	0.05	-0.04				
9. Female (Dummy)	191	0.35	0.48	0.31	0.37		-0.02	-0.04	0.01	-0.06	0.08	-0.05	-0.21 **			
10.Number of employees	190	1.19	1.62	1.49	1.02		0.22 **	0.18 **	0.26 **	0.14 *	0.13 *	-0.04	0.06	0.08		
11.Firm generation	190	0.90	1.42	1.18	0.75		0.22 **	0.17 **	0.22 **	0.15 *	0.09	-0.02	0.14 *	0.01	0.75 **	
12.Survey format (Dummy)	196	0.40	0.82	0.34	0.43		0.23	-0.07	0.02	0.02	0.04	-0.08	-0.12 *	0.44 **	0.12	-0.01

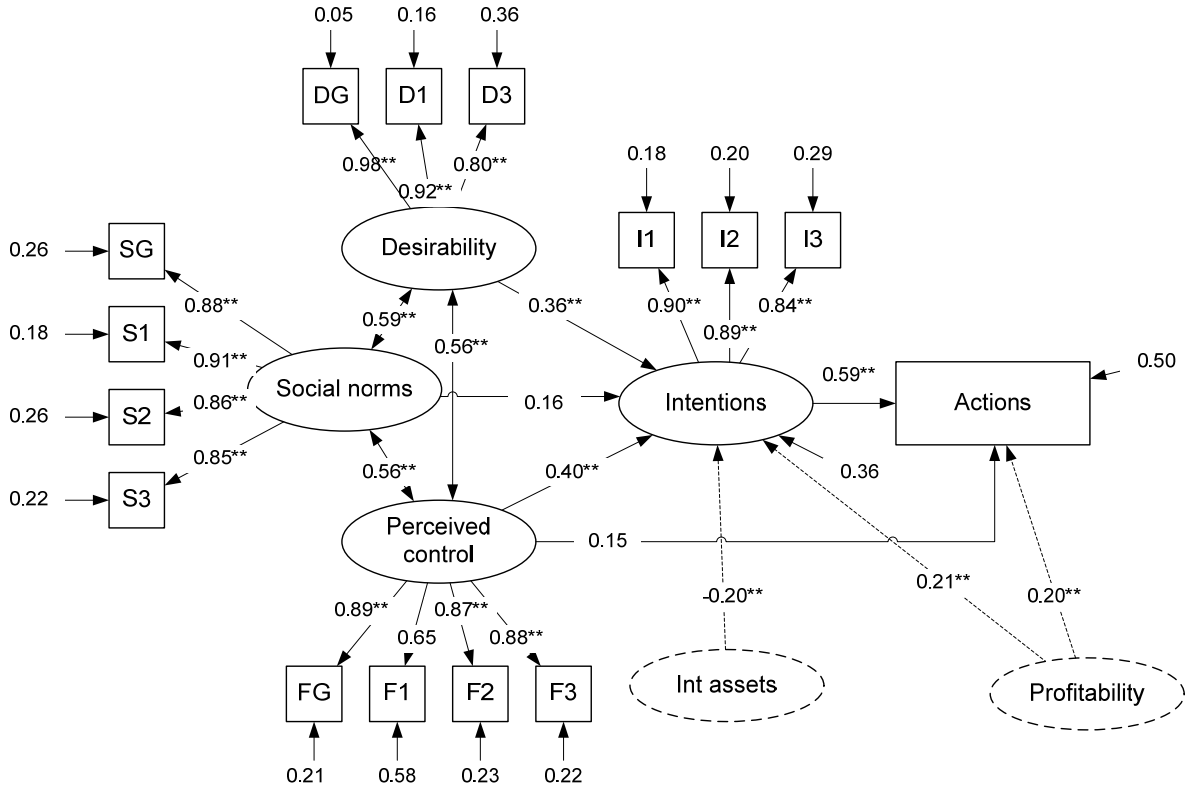
A: Significant difference between Transfer and Liquidation groups: chi-square test for dummy variables, t-test for independent samples for continuous variables; Significance levels: ** p<0.01; * p<0.05

Kendall's tau correlation coefficients reported in the matrix; Significance levels: ** p<0.01; * p<0.05

Table 2: Hierarchical logistic regression with Transfer as dependent variable

	Model 1		Model 2		Model 3	
	Coeff.	Sign.	Coeff.	Sign.	Coeff.	Sign.
Control variables						
Intercept	-1.31	0.11	-4.60	0.00	-5.48	0.00
Age entrepreneur	0.01	0.31	-0.01	0.57	0.00	0.99
Female	-0.60	0.16	-1.11	0.06	-0.95	0.15
Number of employees	0.08	0.62	0.07	0.77	0.08	0.77
Firm generation	0.09	0.60	-0.00	0.99	-0.06	0.84
Survey format	0.36	0.15	0.47	0.15	0.38	0.30
Industry dummies	yes		yes		yes	
TPB variables						
Intention			1.20	0.00	1.11	0.00
Perceived behavioral control			0.47	0.04	0.55	0.03
Business variables						
Intangible assets					-0.82	0.00
Profitability					1.02	0.00
Nagelkerke R^2		0.15		0.58		0.65

Figure 1: The full Structural Equation Model



Significance levels: ** p<0.01; * p<0.05